

UNITED STATES DEPARTMENT OF AGRICULTURE
FOOD AND NUTRITION SERVICE

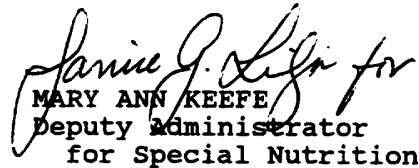
ALEXANDRIA, VA 22302

CHANGE TRANSMITTAL	
CHANGE NUMBER: 1	DIRECTIVE IDENTIFICATION AND NUMBER: FNS Instruction 796-4, Rev. 4
DIRECTIVE TITLE: Financial Management - Summer Food Service Program for Children	

This Change clarifies allowable operating costs and the proper classifications of funds accruing to the Summer Food Service Program for Children.

PAGE CONTROL CHART

<u>Remove Pages</u>	<u>Dated</u>	<u>Insert Pages</u>	<u>Dated</u>
i and ii	5-21-92	i and ii	4-14-94
5 and 6	5-21-92	5	5-21-92
		6	4-14-94
15 and 16	5-21-92	15	5-21-92
		16	4-14-94


MARY ANN KEEFE
Deputy Administrator
for Special Nutrition Programs

DISTRIBUTION: FM, SNP, F1, A, E	MANUAL MAINTENANCE INSTRUCTIONS: Retain and file Change Transmittal in front of directive until further notice. Remove and insert page(s) if applicable.	OPI: CND-200	Page 1 4-14-94
------------------------------------	---	-----------------	-------------------

ACTION BY: Regional Offices
State Agencies

INFORMATION FOR: Accounting Division
Child Nutrition Division

Financial Management - Summer Food Service Program for Children

TABLE OF CONTENTS

	<u>Page</u>
I PURPOSE	1
II AUTHORITY	1
III ABBREVIATIONS	2
IV FORM	2
V SCOPE	2
VI DEFINITIONS	2
VII RESPONSIBILITIES	3
VII FINANCIAL MANAGEMENT STANDARDS	3
IX BASIC GUIDELINES FOR DETERMINING ALLOWABILITY OF COSTS	4
A Factors Affecting Allowability of Costs	4
B Direct Allocation of Costs	5
X SELECTED ITEMS OF COST	5
A Operating Costs	6
B Allowable Administrative Costs	13
C Claim Restrictions	14
D Unallowable Costs	14
E Additional SFSP Unallowable Costs	15

DISTRIBUTION: FM, SNP, F1, A, E	MANUAL MAINTENANCE INSTRUCTIONS: See Change Transmittal Sheet for manual maintenance instructions.	RESPONSIBLE FOR PREPARATION AND MAINTENANCE: CND-200	Page i Change 1 4-14-94
------------------------------------	--	---	-------------------------------

	<u>Page</u>
* XI REDUCTIONS TO PROGRAM COSTS	16
* A Applicable Credits	16
* B Funds Accruing to the Program	16
XII FUNDS MANAGEMENT	17
A Payments to SA's	17
B Payments and Disbursement to Sponsors	17
C Interest	20
XIII CAMPS	20
XIV PROCUREMENT STANDARDS AND PRACTICES	21
A Contracts With Food Service Management Companies	21
B General Guidelines	21
XV AUDITS	23
XVI IMPLEMENTATION REQUIRED	23
XVII OFFICE OF MANAGEMENT AND BUDGET APPROVAL	23

ACTION BY: Regional Offices
State Agencies

INFORMATION FOR: Accounting Division
Child Nutrition Division

Financial Management - Summer Food Service Program for Children

I PURPOSE

This Instruction establishes standards, principles, and guidelines to assist SA's and FNSRO's in the development and maintenance of financial management systems, including accounting information systems which are to be maintained by sponsors, thereby assuring that:

A All costs claimed in the program are necessary and reasonable.

B Program funds are expended efficiently, economically, and in accordance with applicable laws and regulations.

Funding for the SFSP is provided to assist States in initiating and maintaining nonprofit food service programs for children during the summer months and all other approved times. The food service provided under the SFSP is similar to that provided under the National School Lunch and School Breakfast Programs and is intended primarily to serve children from needy areas when, area schools are closed for vacation.

II AUTHORITY

The SFSP is authorized by section 13 of the National School Lunch Act, as amended. Program regulations issued by the Department are found in 7 CFR 225.

Principles for determining applicable costs and factors affecting allowability of costs for management of grant programs are as provided for in 7 CFR 3015, Uniform Federal Assistance Regulations, and a number of OMB Circulars governing cost principles (A-87 and A-122), financial management requirements (A-102 and A-110) and audits (A-125 and A-133).

DISTRIBUTION: FM, SNP, F1, A, E	MANUAL MAINTENANCE INSTRUCTIONS: See Change Transmittal Sheet for manual maintenance instructions.	RESPONSIBLE FOR PREPARATION AND MAINTENANCE: CND-1	Page 1 5-21-92
------------------------------------	--	---	-------------------

III ABBREVIATIONS

AICPA---American Institute of Certified Public Accountants
CFR - Code of Federal Regulations
FNS - Food and Nutrition Service
FNSRO -- Food and Nutrition Service Regional Office
MAP - Management and Administration Plan
OMB - office of Management and Budget
ROAP - Regional office Administered Programs
SA's - State Agencies
SFSP - Summer Food Service Program
USDA - United States Department of Agriculture

IV FORM

FNS-418, Report of the Summer Food Service Program for Children

V SCOPE

The material presented in this Instruction applies to all SA's responsible for administering the program and to FNSRO's, where applicable, and to program sponsors. SA Summer Administrative Funds are not covered by this Instruction.

VI DEFINITIONS

Terms used in this Instruction are those defined in 7 CFR 225 and 7 CFR 3015, Appendix A - Definitions. Other definitions of importance are as follows:

A Financial-management is that aspect of management which is directed to the effective control over, and accountability for, all funds, property, and other assets to assure that they are safeguarded and used efficiently to fulfill authorized purposes. Financial management includes such activities as budgeting, accounting, costing standards, management of revenues, management of property, procurement standards, and fiscal audits. Records of these activities must be supported by source documents to accurately and completely disclose the sources and applications of funds.

B Inventory adjustment is a form of voucher or record which briefly explains errors recorded in a previously reported inventory, or loss of goods resulting from theft, fire, water damage, refrigeration breakdown, or contamination. The record should be prepared by the person responsible for safekeeping of the goods being reported. The closing inventory should be adjusted for the previous reporting period, and should reflect action by a

designated reviewing authority. When approved to relieve all persons from responsibility to repay costs of a loss, the value of an inventory adjustment can be included in the cost of food used.

C Net costs are total program costs (administrative and operating) less any applicable credits (e.g., refunds, rebates, etc.).

VII RESPONSIBILITIES

SA's shall establish a financial management system and may appoint a coordinator responsible for the implementation of the system. The system shall include provisions for necessary support services including budgeting, accounting, procurement, payroll, data processing, audit, etc., that meet the standards set forth in section VIII, below, and applicable Federal regulations. Program sponsors shall comply with the financial management system established by the SA.

Additionally, the SA shall be responsible for disbursing SFSP funds to sponsors in a timely and accurate manner.

VIII FINANCIAL MANAGEMENT STANDARDS

A At a minimum, SA and sponsor financial management systems shall provide:

- 1 Accounting records which are supported by source documents.
- 2 Records which show the source and application of funds and contain information pertaining to reimbursement funds (e.g., authorization, obligations, unobligated balances, assets, liabilities, and outlays) and income.
- 3 Accurate, current, and complete disclosure of the financial transactions of the program.
- 4 Effective control over, and accountability for, all funds, property, and other program assets to assure that they are safeguarded and used solely for authorized purposes.
- 5 Comparison of actual outlays against budgeted amounts.
- 6 Organization-wide audits to determine, at a minimum, the fiscal integrity of financial transactions and reports, and compliance with laws, regulations, and administrative requirements.

7 A systematic method to assure timely and appropriate resolution of all audit findings and recommendations (including organization-wide).

B Additionally, SA financial management systems shall provide:

1 Assurance that the final monthly Form FNS-418 is submitted to FNSRO's within 90 days after the close of the applicable report month.

2 Assurance that final valid claims from sponsors are submitted within 60 days following the applicable claim month, and any adjustments to final claims are processed in accordance with the established FNS exception request approval procedures. (Note: Sponsors which operate less than 10 days in the final month of operation must submit a combined claim for the final month and the immediate preceding month within 60 days from the last day of operation.)

3 A system which ensures that any adjustments to a final Form FNS-418 is submitted prior to the SFSP grant closeout dates established by FNS.

C SA's shall also comply with the applicable program regulations and any other reporting policies established by FNS to implement legislative provisions.

IX BASIC GUIDELINES FOR DETERMINING ALLOWABILITY OF COSTS

A Factors Affecting Allowability of Costs. To be allowable under the SFSP, costs must meet the following general criteria:

1 Be necessary and reasonable for proper and efficient administration of the program and chargeable within the guidelines of this Instruction;

2 Be authorized and not prohibited under State or local laws or regulations;

3 Conform to any limitations or exclusions set forth in this Instruction, Federal laws, or the governing limitations as to types or amounts of cost items;

4 Be consistent with the requirements of 7 CFR 3015.190, Subpart T--Cost Principles;

5 Not be chargeable to, or included as a cost to, any other federally financed program in either the current or prior period;

6 Be net of all applicable credits; and

7 Be accorded consistent treatment through application of generally accepted accounting principles appropriate to the circumstances.

B Direct Allocation of Costs. Many nonprofit sponsors typically separate their SFSP costs into two categories--operating or administrative. To the maximum extent practical, they identify each expense as either an operating or administrative cost. Costs which benefit both the operation and administration of the SFSP may be prorated between these two categories on a consistent and rational basis. For costs which benefit both the SFSP and other activities of the sponsor, such as occupancy and telephone services, these costs may be prorated as direct costs, using any appropriate base approved through the SA's financial management system and subject to review by FNS.

Public institutions should follow their existing guidelines for allocating costs.

X SELECTED ITEMS OF COST

This section lists allowable operating costs, administrative costs, and those costs which are unallowable. (Note: The listing is not intended to identify all items of cost.)

Costs can be allocated as either direct or indirect. Because of the diverse characteristics and accounting practices of nonprofit organizations, it is not possible to specify the categories of costs which may be classified as direct or indirect in all situations. In general, however, direct costs are those that can be identified specifically with an organization's SFSP operation, and are assignable entirely to the SFSP. Typical direct costs chargeable to the program are compensation of employees for the time and efforts devoted specifically to the execution of the program; the cost of materials acquired, consumed, or expended specifically for the SFSP; equipment and other approved capital expenditures; and other items of expense incurred specifically to carry out the program.

Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified or assignable

wholly to the SFSP. Typical examples of indirect costs may include depreciation and use allowances on buildings and equipment, the costs of operating and maintaining facilities, and general administrative expenses of the organization.

A Operating Costs. Operating costs are expenses incurred in operating a food service under the SFSP. Payments to a sponsor for operating costs shall equal the lesser of the actual operating costs incurred by the sponsor, or the sum of the amounts derived by multiplying the number of meals, by type, actually served to eligible children by the current reimbursement rates. SA's must ensure that second meals claimed for reimbursement are limited to the 2 percent tolerance established in Part 225.15(b) of the SFSP Regulations. Operating costs shall include allowable direct and indirect cost expenditures. All costs must be documented.

1 Compensation for Program Labor. Operating costs for program labor involve labor performed to accomplish the following tasks:

- a Preparation, delivery, and service of program meals and cleanup;
- b Supervision of children during the meal service; and
- c Onsite preparation of records required for the program.

Labor operating costs are allowable when the amounts claimed are based upon hourly rates that are reasonable for the services provided and documented by payroll records. Hourly rates will be considered reasonable to the extent that they are consistent with rates paid for similar work in the area in which the sponsor is located.

The cost of program labor may include the documented amounts of wages and fringe benefits, including Social Security withholding tax and retirement benefits paid or incurred during the reporting period.

The costs associated with personnel who work only a portion of their time for the SFSP must be prorated based on the hours worked for the program. In order to establish the portion of costs which may be claimed as program labor, a daily log or other valid record must document the amount of time spent by each person on SFSP food service duties. The log or statistical data will supplement existing payroll documentation.

Donated-labor (e.g., volunteers, or labor funded through other Federal, State, or local government programs) shall not be claimed as a cost.

When provided for by SA policy, and at the discretion of the sponsor, adults who perform labor necessary for program operations may be served meals at no charge. The cost of these meals may be included as reported operating costs. However, these meals may not be counted toward the sponsor's meal count on the claim form.

2 Costs of Obtaining Food. Expenditures related to obtaining agricultural commodities and other foods used for consumption by children in the SFSP are costs of obtaining food. Incoming transportation charges and costs of processing, distributing, storing, and handling of purchased and donated food are allowable costs. Reductions to the cost of food used include meal or meal components returned to food service management companies, allowances on vendor's invoices for unacceptable food, cash discounts, trade discounts, rebates, and the value of inventory on hand at the time of operations closeout.

a The inventory value of purchased foods should be established by a physical count of food stocks on hand in storage, for all food types at all locations, and should be determined at the beginning and end of each year's SFSP operations.

The SA shall prescribe or approve an inventory valuation method for identifying item value (i.e., first-in/first-out, averaging, etc.). Whichever method is used, item values must be established net of trade discounts, returns, and other credits to purchase cost(s). Inventory adjustments must be made when reductions of food in stock result from fire, water damage, spoilage, or other than normal usage that results in stock reduction. Minor reductions need not be recorded as an inventory adjustment. The SA should establish amounts at which reductions become major. Reductions in stock should be reviewed on a case-by-case basis. Actual losses which could have been covered by insurance are unallowable. In calculating the dollar value of the inventory, use the original price of each item (can, pound, etc.), less any credits. When computing the cost of food used, those costs associated with distribution, storage, and handling

of food may be summarized and added to the purchase price of the food only if the costs were not included in the original purchase of the items.

b The formula used by sponsors to calculate the cost of food used shall be specified in SA policy. The formula may be stated as follows:

Calculated Cost of Food = Beginning Inventory
plus (+) Receipts of Purchased Food plus
(+) Other Costs of Food minus (-) Credits to
Costs of Food minus (-) Inventory Adjustments
minus (-) Ending Inventory.

Sponsors must, at a minimum, take a single food inventory at the beginning and at the conclusion of the program to determine the cost of food used. Sponsors who pay for food as they use it and, therefore, maintain no inventory of food may report food costs on a cash basis, if approved by the SA.

c Sponsors are required to report results of a physical count (inventory) of food on hand at the close of their program operations in terms of dollar value. The value assigned to this ending inventory must be the same method used by the sponsor during the operation of its program.

d In the case-of-unitized, prepackaged meals delivered by a food service management company under contract, the amount reported as "food used" must be based upon delivery receipts itemized to show the number of meals included in each delivery. For the cost of meals delivered to be allowable, each site supervisor must verify the adequacy and number of meals delivered and sign the delivery notice. Costs claimed for meals delivered by the food service management company are limited to the number of meals properly ordered by the sponsor, or the number of eligible program meals actually served, whichever is less. Sponsors may be permitted to claim the costs of meals properly ordered, but not served to eligible children or program adults, as well as disallowed meals, if approved by the SA. Returns, discounts, rebates, and other credits must be taken into account along with delivery notices to determine the cost of food used.

e Records maintained in support of the cost of purchased food used shall include as a minimum:

- (1) Receiving reports prepared at sites or wherever food is received from suppliers and signed by receiving personnel.
- (2) Purchase invoices received from food suppliers.
- (3) Records reflecting costs of processing, distributing, transporting, storing, and handling of purchased food when such costs are invoiced separately from the original purchase invoice(s).
- (4) Records of returns, allowances, cash discounts taken, and other credits when they are not reflected on purchase invoices.
- (5) Canceled checks or other forms of receipts for payment.
- (6) Inventory records that show the kinds of food items on hand at the end of a period, the quantity of each item, the dollar value assigned to each food item, and the total value of the inventory.
- (7) Records of major inventory adjustments, as defined by the SA, showing the same kinds of information as inventory records.
- (8) Sponsors which contract with schools or food service management companies to provide all meals, including supplements, must maintain billings by site from the school or company, less returns, allowances, discounts, and rebates for the program meals delivered.

3 Commodity Assistance. Summer program sponsors eligible to receive USDA commodities include self-preparation sponsors, sponsors which have entered into an agreement with a school or school district for the preparation of meals, and school food authorities which have competitively procured program meals from the same food service management company from which they

competitively procured meals for the National School Lunch Program during the last period in which school was in session. SA's should notify sponsors of the availability and the price of commodities when approving sponsor applications for participation. The notice of availability and unit price should be an attachment to the agreement between an SA and sponsor. Issue or draw procedures and delivery schedules for commodities should be established at the same time.

The costs of processing USDA donated commodities should be controlled by the SA. These costs may be borne by the SA and added to the unit price or value of the commodity to the sponsor, or passed down as a specifically identified charge to the sponsor to be added to the cost of food used. Other costs of distributing, transporting, storing, and handling donated commodities are proper charges to the cost of food used. Sponsors may receive and pass on donated commodities to schools when such schools prepare meals on-site. SA policy should provide that:

a Prices charged by a school to such a sponsor will be reduced by the value of donated commodities received.

b The donated commodity value credited to the sponsor shall reflect all costs of obtaining food (processing, transporting, etc.) borne by the SA and sponsor.

When USDA donated commodities have been received by a sponsor, the sponsor must maintain records documenting the unit price or value of all USDA donated commodities. When costs of obtaining USDA donated commodities are charged to or are borne by the sponsor, records must reflect these costs.

At the time of program closeout, SA's shall provide for adequate controls over USDA donated commodities to assure that the commodities are not abandoned or used unlawfully. Guidelines for the disposition of donated commodities are prescribed by 7 CFR Part 250, Donation of Foods for Use in the United States, Its Territories and Possessions and Areas Under Its Jurisdiction (Food Distribution Regulations).

4 Facilities Service Costs. These are the costs of services other than labor that are necessary to operate the SFSP. SA policy shall restrict facilities' service costs eligible for Federal payments to the following:

a The cost incurred by the sponsor for rental of food service preparation facilities and food service equipment.

(1) Facilities are considered to be buildings or parts of buildings, but not land, used for the preparation of food. Rental of dining space which is not part of a school food service facility or a larger facility used for food preparation is not an allowable cost. When sponsors utilize school food service facilities for program food service operations, charges billed to the sponsor for the opening, closing, and use of the school facilities, including the use of space for dining only, are allowable operating costs. All rental agreements must be in writing and show responsibilities of all parties involved.

(2) Food service equipment is equipment (other than land or buildings) designed for the receipt, preparation, refrigeration, storage, cleanup, service, and transportation of food.

(3) Rental agreements may not include an option for the sponsor to purchase at a later date, or rental fees for equipment, or facilities which exceed the rental fees of comparable equipment, or facilities in the same locality.

b Costs of repair to equipment, when the need for the repair is attributable to the program, are allowable costs. Costs of such repairs, when not wholly assignable to the SFSP, should be prorated to fairly distribute costs among different cost objectives based on their distribution of use. Repairs may only constitute normal maintenance for the equipment and shall not include purchases that rebuild or appreciably prolong the life expectancy of the equipment.

c Maintenance costs of keeping rented facilities in a clean and efficient operating condition are allowable costs only to the extent that those costs are not already reflected in rental fees. Improvements to facilities are not allowable costs when those improvements are of a permanent nature or when the benefits derived from those improvements exceed the duration of program operations.

d Utility costs incurred in the operation of the facility or equipment utilized for program operations are allowable costs to the extent that those expenses are not already reflected in rental fees, and to the extent that those expenses are related to program food service operations.

5 Nonfood Supplies. The documented costs for nonfood supplies purchased solely for program needs are allowable. Nonfood supplies include paper napkins, straws, dishwashing compounds, and equipment items of minor dollar value (as determined by the SA). The cost of nonfood supplies is determined by the dollar value of a beginning inventory, plus the dollar value of the supplies purchased during the period of SFSP operations, less the dollar value of the ending inventory. An inventory of nonfood supplies must be conducted at the beginning and ending of SFSP operations. Sponsors may claim the actual costs of supplies purchased during a claim month, with the amount claimed during the final month of operation adjusted for the costs of any unused supplies for the entire period of SFSP operations.

6 Costs for Transporting Children. Rural sponsors may claim the cost of transporting children to a central feeding location within rural areas as an operating cost, but not as an administrative cost. Costs incurred to administer the program, such as mileage to monitor sponsor feeding sites, may not be claimed as operating costs, but may be claimed as administrative costs if allowed for in a sponsor's administrative budget. Rural, as defined by SFSP regulations, means ". . . (a) any area in a county which is not a part of a Metropolitan Statistical Area or (b) any 'pocket' within a Metropolitan Statistical Area which, at the option of the State agency and with FNSRO concurrence, is determined to be geographically isolated from urban areas."

7 Costs for Transporting Food to Children. Costs directly associated with transporting food to children are allowable. For example, the cost involved with picking up prepared lunches at a central kitchen location and distributing them to various feeding sites would be an allowable cost.

8 Depreciation of Nonexpendable Equipment.

a General. Depreciation is the expense associated with the loss in value of program equipment. This loss in value may be claimed as an allowable operating cost. Donated equipment may not be included. All depreciation claimed for Federal reimbursement must be documented. Records in memorandum form are acceptable to document depreciation. All records for the full depreciation period must be retained during the life of the equipment and for 3 years after the end of the Federal fiscal year during which an equipment item is fully depreciated. Records must be retained beyond this period if audit findings have not been resolved.

b Acquisition Cost. Depreciation is based on acquisition cost. Where actual cost records have not been maintained, a reasonable estimate of the original acquisition cost may be used in the computation.

c Computing Depreciation. Any generally accepted method of computing depreciation may be used. However, the method of computing depreciation must be consistently applied for all like assets for all affected federally-sponsored programs, and should be consistent with the method normally allowed by the SA for nonfederally-sponsored activities. The depreciation method must result in equitable charges considering the use of assets and the benefits to the program.

d Fully Depreciated Equipment. No depreciation may be allowed on any assets considered fully depreciated.

B Allowable Administrative Costs. Allowable administrative costs are costs incurred by a sponsor related to planning, organizing, and managing a food service under the program, and excluding interest costs and operating costs. Administrative costs may include allowable direct and indirect costs. If the sponsor has an approved indirect cost rate, the rate must be applied to the base which is common to the functions benefiting from the indirect costs. For example, if the approved base is direct salaries, then only those salaries of individuals that can be specifically

identified with SFSP activities can be used as the base in the calculation of the indirect costs.

The use of indirect cost rates-are-allowable to the extent that:

1 The sponsor has a current indirect cost proposal and/or allocation plan which has been submitted to the Federal cognizant agency or its authorized representative for approval. The proposal/plan must be available for review by the Federal cognizant agency, FNS, or the SA;

2 Such costs have been included in the approved budget either by estimated dollar value or reference to the approved rate;

3 Indirect costs are computed using the approved rate times the appropriate base; and

4 Adequate documentation is maintained.

If any of the above four conditions are found absent in the course of processing a sponsor's claim, or through audit or administrative review, the SA shall disallow the sponsor's claim for indirect costs.

C Claim Restrictions. Any portion of administrative costs not recovered by a sponsor from Federal payments shall not be claimed as an operating cost. These costs must be included in the sponsor's administrative budget and approved by the SA. Sponsors shall document all administrative costs claimed.

D Unallowable Costs. Unallowable costs are costs for which SFSP funds may not be disbursed. They include the following:

1 Bad debts, which are any losses arising from uncollectable accounts and other claims and related costs.

2 Repayment of overclaims and other Federal debts.

3 Contributions to a contingency reserve or any similar provision for unforeseen events.

4 Contributions and donations including USDA donated commodities and other donated food, labor, and supplies.

5 Entertainment, i.e., cost of amusements, social activities, and incidental related costs such as meals, beverages, lodging, rentals, transportation, gratuities, etc.

6 Fines or penalties resulting from violations of, or failure to comply with Federal, State, or local laws and regulations.

7 Interest on borrowings (however represented), bond discounts, costs of financing and refinancing operations, and legal and professional fees paid in connection therewith. Interest which is included in the rental cost of space is allowable, however, as provided for in Attachment B to OMB Circular A-87.

8 Salary and other expenses of the Governor, and State and local legislators. Travel expenses of these individuals in special situations may be allowable. Contact the FNSRO for additional information.

9 Costs resulting from an underrecovery of costs under other grant agreements.

E Additional SFSP Unallowable costs. FNS has determined other costs for which SFSP funds may not be disbursed. These costs include the following:

1 Administrative costs not included in the sponsor's budget as finally approved.

2 Direct capital expenditures for:

a Acquisition of land or any interest in land;

b Acquisition or construction of buildings or facilities, or the alteration of existing buildings or facilities;

c Nonexpendable equipment of any kind;

d Repairs which materially increase the value or useful life of buildings, facilities, or nonexpendable equipment; and;

e Other capital assets including vehicles.

3 Fund raising, i.e., financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions.

4 Rental or leasing costs for buildings, facilities, or equipment if the rental agreement includes option-to-purchase, or for periods beyond the closeout date for program operation.

5 Costs for meals, in excess of the number of meals eligible for reimbursement (plus legitimate program adult meals), unless specifically approved by the SA.

6 Any other costs incurred which program officials determine to be in violation of applicable laws or regulations.

XI REDUCTIONS TO PROGRAM COSTS

A Applicable Credits. Applicable credits are receipts or transactions which reduce expenses. Examples of credit transactions are purchase discounts, rebates or allowances, recoveries or indemnities on losses, sales of scrap or incidental services receipts, and adjustments of overpayments or erroneous charges. Sponsors shall allocate credits, as necessary, and apply the appropriate amounts to their program administrative and operating expenses to reduce program costs. Costs claimed for reimbursement must be reported net of applicable credits.

B Funds Accruing to the Program. Funds that accrue to the program must be deducted from total program costs. For purposes of the SFSP, funds accruing to the program include program income and other cash resources that must be used for SFSP purposes.

1 Program income means gross income earned by the sponsor from operating the SFSP. Payments received from food sales to adults when the cost of the adult meals is not deducted from total operating costs is the most common type of program income.

Program income does not include interest earned on reimbursement payments by any sponsor (SA or ROAP); loans to the program; cash donations which are made specifically for the support of the food service operation or administration; financial assistance from other sources, such as Federal, State, and local government grants; and interest earned on advances by sponsors. However, when ROAP sponsors earn more than \$100 in interest on advances, the amount in excess of \$100 must be returned to FNS.

2 Other Cash Resources include cash donations that are specifically identified for use in the sponsor's SFSP; the first \$100 in interest earned on advances by ROAP sponsors; and any other Federal, State, or local funds specifically provided to the sponsor's SFSP operation.

SA's may determine whether net costs must be reported (total program costs minus funds accruing to the program) or whether funds accruing to the program must be reported and deducted by the SA from the sponsor's total reported program costs.

XII FUNDS MANAGEMENT

A Payments to SA's. FNS will make payments to each SA from funds appropriated by Congress and as apportioned by OMB to FNS. Depending on the availability of funds, at least 65 percent of program-payment funds and 80 percent of State administrative funds will be available to the SA upon approval of the MAP. Remaining program payment funds will be available to be used for valid claims for reimbursement, as long as those claims are submitted to the SA within 60 days after the end of the claim period.

B Payments and Disbursement to Sponsors. Funds will be disbursed by SA's only to sponsors who have a current agreement for operation of a food service to provide meals to children under the SFSP.

1 Design of Disbursement System. Disbursements will be made in accordance with the agreement and SFSP Regulations for the purpose of assisting sponsors in financing only the cost of providing meals to children, including necessary food service labor, under the program. Funds are also made available to cover sponsors' costs in administering the SFSP. SA disbursement and reporting systems shall be designed to:

- a Receive and process sponsor reports of performance (meals served);
- b Receive, process, and reconcile sponsor reports of net cost for operating a food service to provide meals to children;
- c Disburse funds to assure timely receipt of advances by sponsors; and
- d Collect and produce, on a timely basis, such reports and other data as required by FNS to administer the SFSP in an economical and efficient manner.

2 Types of Disbursement. As provided for in the SFSP Regulations, FNS provides the following funding sources to allow SA's to make advances of cash to meet sponsor needs:

- a Advances for Startup Costs. Up to 20 percent of the sponsor's approved administrative budget may be made available to sponsors at the discretion of the SA under Section 225.9(a) of the SFSP Regulations to defray preprogram administrative expenses. Such advances shall be deducted from the

sponsor's first advance payment for administrative costs or, if the sponsor does not receive advance payments, from the first administrative reimbursement.

b Advances for Operating Costs. No later than June 1, July 15, and August 15, the sponsor, upon written request received at least 30 days prior to these dates, shall receive advances for operating costs in accordance with Section 225.9(c)(1) of the SFSP Regulations. Requests received less than 30 days prior to these dates shall be acted upon within 30 days of receipt.

c Advances for Administrative Costs. No later than June 1 and July 15, the sponsor, upon written request received at least 30 days prior to these dates, shall receive advances for administrative costs in accordance with Section 225.9(c)(2) of the SFSP Regulations. Requests received less than 30 days prior to these dates shall be acted upon within 30 days of receipt.

3 Payments. Sufficient cost and participation data must be maintained to justify claims made and reimbursement received. SA's may consider claims for reimbursement not properly payable if a sponsor's records do not justify all costs and meals claimed. Data collected for the disbursement system shall separately identify total food service cost and the portion of total cost which represents sponsor administrative costs.

a Operating Costs. Final payments to sponsors will be the lesser of net costs incurred or the current rate of reimbursement times the number of eligible meals served to children.

(1) Allowable operating costs may include costs incurred for:

(a) Eligible meals served to eligible children.

(b) Meals served to adults performing meal service labor. (Note, however, that only meals served to eligible children may be claimed for reimbursement--the total

number of which may not exceed a sponsor's approved meal service level.)

(c) Meals served to other' adults if payment received from sales is included as program income.

(2) Unallowable operating costs include costs incurred for:

(a) Meals served in excess of approved meal service level.

(b) Second meals served in excess of the 2 percent tolerance level established by Section 225.15(b)(4) of the SFSP Regulations.

(c) Excess meals, unless the costs of such meals have been specifically approved for claiming by the SA.

(d) Spoiled or damaged meals.

(e) Meals served to nonprogram adults unless payments received from food sales are included as program income, when the payments are at least equal to the cost of the meals. If payments are not equal to the cost of the meals, then costs of nonprogram adult meals are unallowable' unless specifically approved by the SA.

(f) Meals served in violation of program regulations (e.g., meals served outside approved serving time, consumed off-site, served at an unapproved site, or served without all required components or quantities of components.)

b Meals Claimed.

(1) Allowable meals may include:

(a) Eligible meals served to eligible children.

(b) Meals used for quality testing by SA's, auditors, or health authorities and found to meet meal pattern requirements.

(2) Unallowable meals include.

(a) Meals in excess of approved meal service level.

(b) Second meals served in excess of tolerance level established by Section 225.15(b)(4) of the SFSP Regulations.

(c) Meals served to adults.

(d) Meal violations (see subparagraphs a (2) (c), (d), and (f), above).

c Administrative Costs. Sponsor administrative payments shall equal the lesser of actual costs incurred, approved budget amount negotiated with the SA, or applicable administrative reimbursement rates times the number of eligible meals served to children.

C Interest. As required by OMB Circular A-110, all private nonprofit sponsors in States directly administered by FNS (i.e., ROAP States) shall maintain advances of SFSP funds in interest-bearing accounts. The interest earned on SFSP funds in such accounts must be returned to FNS, except that interest amounts up to \$100 per year may be retained by the sponsor for administrative expense. Sponsors operating in State administered programs are exempt from this requirement and may retain any interest earned.

XIII CAMPS

Camps include residential summer camps which offer a regularly scheduled food service as part of an organized program for enrolled children. A camp may serve up to four meals each day. A camp may not participate in the SFSP and the Special Milk Program simultaneously, but a camp may enter into a separate agreement with an SA to operate a Special Milk Program at some other facility.

Sponsors of camps shall be reimbursed only for those meals served to children eligible for free and reduced price meals. The sponsor shall maintain all documentation required for program reimbursement, including family size and income documentation for each child for whom meal reimbursements are claimed.

Camp sponsors. must allocate operating costs to distribute those costs between meals served to program participants (children eligible for free and reduced price meals and program adults) and meals served-to-others; One way to distribute those costs is to calculate the percentage of program participants and to use that percentage as the basis for allocating operating costs. For example:

$$\frac{\text{Number of Program Participants}}{\text{Total Number Served}} = \text{Percentage Factor}$$

The camp may apply this percentage factor to the associated operating costs for each session to determine eligible operating costs. The factor is not applied to program administrative costs. Publication FNS-206, SFSP Sponsor's Handbook, provides a step-by-step worksheet for this allocation method.

The SA must approve the allocation formula for each camp sponsor. Since different camps will operate under different circumstances (e.g., length of program, number and size of each session, etc.), the camps will have different allocation plans.

XIV PROCUREMENT STANDARDS AND PRACTICES

The procurement provisions set forth in Section 225.17 of the SFSP Regulations, 7 CFR Part 3015, Subpart S, and Attachment O to OMB Circular A-102 or OMB Circular A-110, as applicable, shall be used. These provisions are designed to ensure that materials and services are obtained using program-funds in an efficient and economical manner and in compliance with provisions of applicable Federal law and Executive orders.

A Contracts With Food Service Management Companies. Any sponsor may contract with a food service management company for the preparation of unitized meals (with or without milk or juice). A sponsor may also employ a food service management company to operate its entire food service; however, a sponsor may not delegate administrative or managerial responsibility, by contract or otherwise, for the functions specified in Section 225.15. In addition to the above-mentioned portions of the SFSP Regulations and OMB Circulars, Sections 225.6(h) and 225.15(g) of the SFSP Regulations include provisions applying specifically to food service management company procurements.

B General Guidelines. The SA agreement with a sponsor shall require that the sponsor conduct procurements in accordance with applicable State and local laws and regulations, and the

standards set forth in the SFSP Regulations and OMB Circulars A-102 and A-110. The SA shall make information on the appropriate Circular available to sponsors.

All procurement transactions shall be conducted in a manner that provides maximum open and free competition consistent with the provisions of the appropriate regulation or circular. Procurement procedures shall not restrict or eliminate competition.

Each SA shall develop a standard form of contract for use by sponsors for all food service management company procurements. The standard contract developed by the SA must comply with the provisions set forth in Section 225.6(h) of the SFSP Regulations. Sponsors which are public entities, sponsors with exclusive year-round contracts with a food service management company, and sponsors whose food service management company contract(s) do not exceed \$10,000 in aggregate value may use their existing or usual form of contract, provided that such form of contract has been submitted to, and approved by, the SA.

Solicitations of offers, whether by competitive sealed bids or competitive negotiation, shall incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured. In addition, solicitations must clearly set forth all requirements which offerors must fulfill and all other factors to be used in evaluating bids or proposals. Awards of contracts shall be made only to responsible offerors that possess the potential ability to perform successfully under the terms and conditions of the solicitation. Consideration shall be given to such matters as contractor integrity, compliance with public policy, record of past performance, and financial and technical resources.

Bids or proposals exceeding \$100,000 must be accompanied by a bid bond and must be submitted by the sponsor to the SA for approval before acceptance. Funding for such a contract may be approved when sufficient documentation is provided to demonstrate that the bid or proposal has been properly solicited and that the contract will be awarded in accordance with applicable laws and regulations. Bid bonds shall be in an amount ranging from 5 to 10 percent of the contract's value, as required by the sponsor.

Whenever a food service management company contracts for food services valued over \$100,000 for the aggregate of all SFSP contracts taken with the sponsor by the food service management company or its subsidiaries, the food service management company shall obtain a performance bond and furnish a copy of it to the

sponsor within 10 days of awarding the contract. The performance bond shall be in an amount ranging from a minimum of 10 percent to a maximum of 25 percent of the total value of the contracts. The percentage level shall be determined by the SA. Food service management companies shall obtain bid bonds and performance bonds only from surety companies listed in the current Department of the Treasury Circular 570. A copy of the Circular may be obtained from FNSRO's.

XV AUDITS

Audit reports shall give the auditor's opinion concerning the degree of correspondence between the sponsor's accounting records (i.e., participation, cost, and revenue records and reports) and generally accepted accounting principles. SA policies regarding sponsor audits shall be consistent with regulatory requirements. Audits of funds received under the SFSP should be conducted in accordance with OMB Circulars A-128 (public entities) or A-133 (private entities and institutions of higher education), as applicable.


Additional information can be obtained from the AICPA Nonprofit Organizations Subcommittee. This subcommittee has prepared a guide which establishes the standards for independent auditors who examine and report on the financial condition of nonprofit organizations. This guide is available for purchase from AICPA, 1211 Avenue of the Americas, New York, New York 10036.

XVI IMPLEMENTATION REQUIRED

By April 15 of each year, the SA shall have completed any necessary changes to its financial management system and have published material covering allowable costs, funds management, program income, reports requirements, procurement standards, and other provisions of this Instruction for issuance to applicant sponsors.

XVII OFFICE OF MANAGEMENT AND BUDGET APPROVAL

The reporting and/or recordkeeping requirements contained herein have been approved by the Office of Management and Budget in accordance with the Paperwork Reduction Act of 1980.


ROBERT E. WASHINGTON
Deputy Administrator
for Special Nutrition Programs